

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Perrinton	County Gratiot
Fiscal Year End 2/28/06	Opinion Date 4/12/06	Date Audit Report Submitted to State 6/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
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Zip 48823			
Authorizing CPA Signature 		Printed Name Aaron M. Stevens	License Number 1101024055

**Village of Perrinton
Gratiot County, Michigan**

FINANCIAL STATEMENTS

February 28, 2006

Village of Perrinton
Gratiot County, Michigan

February 28, 2006

VILLAGE COUNCIL AND ADMINISTRATION

Douglas Antes	President
Don Andrews	Trustee
Franklin Biddinger	Trustee
Kelly Neubauer	Trustee
Patricia Askegard	Trustee
Larry Blair	Trustee
William Knight	Trustee
Maxine Martin	Clerk
Barbara Helms	Treasurer

Village of Perrinton

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Michael T. Gaffney, CPA
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ABRAHAM & GAFFNEY, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Perrinton
Perrinton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Perrinton, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Perrinton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Village of Perrinton, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 12, 2006

Village of Perrinton Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Village of Perrinton's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 28, 2006. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,178,675.
- Governmental activities net assets were \$791,465.
- Business-type activity net assets were \$387,210.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$375,141 with \$2,793 being reserved for specific purposes.
- The General Fund realized \$762 less in revenues than anticipated for the fiscal year. The General Fund operations and other financing uses expended \$17,596 more than appropriated.
- Overall, the General Fund balance increased by \$1,514 to \$183,722 with \$182,874 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government issued no debt for the year.
- The total long-term debt for the Village was \$210,000 with a net reduction of \$25,000 from the prior year.
- The total addition to the capital asset schedule for the Village was \$116,439, consisting primarily of fire equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), and *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

Village of Perrinton Management's Discussion and Analysis

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during 2006. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, fire protection, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water and Sewer Fund is an example of these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- The contribution of capital assets used in governmental activities also results in capital assets on the government-wide statements but does not provide current financial resources, and therefore is not reported as revenue in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds and where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Perrinton include the General Fund, the Major Street Fund, the Local Street Fund, the Fire Fund, and the Water and Sewer Fund. For the year ended February 28, 2006, the Village had no funds that were classified as nonmajor funds.

Village of Perrinton Management's Discussion and Analysis

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Water and Sewer Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, Village of Perrinton's combined net assets were \$1,178,675 at the end of this year's operations. The net assets of the governmental activities were \$791,465; the business type activities were \$387,210.

Summary of Net Assets:

The following summarizes the net assets as of February 28, 2006.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$398,451	\$374,465	\$63,360	\$34,600	\$461,811	\$409,065
Capital assets	416,324	338,543	541,805	570,546	958,129	909,089
Total assets	814,775	713,008	605,165	605,146	1,419,940	1,318,154
Liabilities						
Current	23,310	10,727	32,955	25,747	56,265	36,474
Noncurrent	-	-	185,000	210,000	185,000	210,000
Total liabilities	23,310	10,727	217,955	235,747	241,265	246,474

Village of Perrinton Management's Discussion and Analysis

Net Assets

Invested in capital assets-

net of related debt	\$416,324	\$338,543	\$331,805	\$335,546	\$748,129	\$674,089
Restricted	185,750	-	-	-	185,750	-
Unrestricted	189,391	363,738	55,405	33,853	244,796	397,591
Total net assets	<u>\$791,465</u>	<u>\$702,281</u>	<u>\$387,210</u>	<u>\$369,399</u>	<u>\$1,178,675</u>	<u>\$1,071,680</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending February 28, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenue:						
Charges for services	\$ 49,675	\$ 39,295	\$ 79,314	\$ 56,021	\$ 128,989	\$ 95,316
Operating grants and contributions	41,321	40,835	-	-	41,321	40,835
Capital grants and contributions	104,196	-	-	-	104,196	-
General revenues:						
Property taxes	46,259	41,731	-	-	46,259	41,731
State Revenue Sharing	43,267	45,175	-	-	43,267	45,175
Investment earnings	8,226	8,390	137	85	8,363	8,475
Miscellaneous	12,014	6,752	177	27,560	12,191	34,312
Transfers	-	(30,000)	-	30,000	-	-
Total revenues	<u>304,958</u>	<u>152,178</u>	<u>79,628</u>	<u>113,666</u>	<u>384,586</u>	<u>265,844</u>
Expenses						
General government	79,805	85,691	-	-	79,805	85,691
Public safety	59,729	45,262	-	-	59,729	45,262
Public works	71,579	45,044	-	-	71,579	45,044
Recreation and cultural	2,797	778	-	-	2,797	778
Water and Sewer	-	-	113,958	122,525	113,958	122,525
Total expenses	<u>213,910</u>	<u>176,775</u>	<u>113,958</u>	<u>122,525</u>	<u>327,868</u>	<u>299,300</u>
Change in net assets	91,048	(24,597)	(34,330)	(8,859)	(56,718)	(33,456)
Net assets, beginning of year	702,281	726,878	369,399	378,258	1,071,680	1,105,136
Prior period adjustments	(1,864)	-	52,141	-	50,277	-
Net assets, end of year	<u>\$ 791,465</u>	<u>\$ 702,281</u>	<u>\$ 387,210</u>	<u>\$ 369,399</u>	<u>\$ 1,178,675</u>	<u>\$ 1,071,680</u>

Governmental Activities:

The result of 2006 governmental activity was an increase of \$91,048 in net assets to \$791,465 (after a prior period adjustment of \$1,864). Of the total governmental activities' net assets, \$416,324 is invested in capital assets; \$185,750 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$189,391 is listed as unrestricted, having no legal commitment.

Village of Perrinton Management's Discussion and Analysis

Revenues:

The three largest revenue categories were capital grants and contributions at 34%, charges for services at 16%, and property taxes at 15%. The Village received a contribution of fire equipment during the year from the fire department, which was purchased through grant revenues. The Village levied 10.5477 mills for general government operations, which is not assigned to any particular activity. Charges for services, which reimburse the Village for specific activities, are the second largest source of governmental activity revenue. Examples include garbage collection fees.

Expenses:

General government is the largest activity, expending approximately 37% of the governmental activities total and includes the financial administration and Village hall functions. Public works is the second largest area, expending approximately 33% of the governmental activities total on areas such as garbage collection, road and street maintenance and improvements, the department of public works functions.

Business-type Activities:

Net assets in business-type activities decreased by \$34,330 during 2006 (after a prior period adjustment of \$52,141). Of the business-type activities' net assets, \$331,805 is invested in capital assets less related debt. The balance of \$55,405 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR FUNDS

As the Village completed 2006, its governmental funds reported *combined* fund balances of \$375,141. This is a net decrease of \$11,403. The net changes for the governmental funds are summarized in the following chart:

	General Fund	Major Street Fund	Local Street Fund	Fire Fund
Fund Balance 2/28/06	\$ 183,722	\$ 94,652	\$ 91,098	\$ 5,669
Fund Balance 2/28/05 (as restated)	182,906	86,778	85,772	6,418
Net Change	\$ 816	\$ 7,874	\$ 5,326	\$ (749)

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 28, 2006, the General Fund reported a fund balance of \$183,722. This amount is an increase of \$1,514 from the fund balance of \$182,208 reported as of February 28, 2005. Prior period adjustments were recorded during the fiscal year totaling \$698. The 2006 original budget called for a \$19,230 increase of fund balance. \$848 of fund balance is reported as reserved.

General Fund Budgetary Highlights:

The Village of Perrinton's budget is a dynamic document. Although adopted prior to March 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$131,268, \$10,762 below the final amended budget. The final amended budget was \$18,000 higher than the original budget and was about 7.5% different than the final actual amount.

Village of Perrinton

Management's Discussion and Analysis

The Village's expenditure budget was also increased by \$18,056 (17% above the original budget) during 2006. The majority of this increase (\$16,653) was for additional costs capital outlay.

Actual Village expenditures and other financing uses for 2006 were \$7,596 over budget. General Fund actual expenditures and other financing uses came in at \$130,452 and the final budgeted amount was \$122,856, which was a 6% difference.

Major Street Fund:

As of February 28, 2006, the Major Street Fund reported a fund balance of \$94,652. \$212 of fund balance is reported as reserved. There were no material changes noted between the original and final amended budgeted revenues or expenditures.

Local Street Fund:

As of February 28, 2006, the Local Street Fund reported a fund balance of \$91,098. \$413 of fund balance is reported as reserved. There were no material changes noted between the original and final amended budgeted revenues or expenditures.

Fire Fund:

As of February 28, 2006, the Fire Fund reported a fund balance of \$5,669. \$1,320 of fund balance is reported as reserved. During the year the budget was amended by increasing revenues and other financing sources by \$9,950 for increase fire contract charges and additional transfers from the General Fund, and a \$4,937 increase in expenditures to cover the additional operating costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2006, the Village had invested \$958,129, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,372,660 for the Village. Depreciation charges for the fiscal year totaled \$67,399. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net book value of capital assets at February 28, 2006 was as follows:

	Governmental Activities	Business- type Activities	Total
Land	\$ 142,548	\$ 35,706	\$ 178,254
Land improvements, net	-	-	-0-
Buildings and improvements, net	158,897	15,654	174,551
Machinery and equipment, net	101,974	5,290	107,264
Vehicles, net	12,905	-	12,905
Water and sewer systems, net	-	485,155	485,155
Capital assets, net	\$ 416,324	\$ 541,805	\$ 958,129

Long-term Debt - As of February 28, 2006, the Village had \$210,000 in debt outstanding. This level of net obligation is \$25,000 less than the obligation recorded as of February 28, 2005.

Village of Perrinton Management's Discussion and Analysis

Outstanding Debt as of February 28, 2006:

	<u>Mar. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 28, 2006</u>
Business-type Activities				
Water Supply Bonds	<u>\$ 235,000</u>	<u>\$ -0-</u>	<u>\$ 25,000</u>	<u>\$ 210,000</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note E to the financial statements.

VILLAGE OF PERRINTON GOVERNMENT ECONOMIC OUTLOOK:

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been affected and any further cuts would affect the services that we provide to the citizens of the Village of Perrinton.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are beginning to rise.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for 2007. An increase of \$19,230 to the Village's fund balance was anticipated to balance the General Fund Budget, although it is estimated that the increase will be significantly lower. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at 118 S. Robinson Street, Perrinton, MI 48871.

BASIC FINANCIAL STATEMENTS

Village of Perrinton

STATEMENT OF NET ASSETS

February 28, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 256,158	\$ 51,266	\$ 307,424
Investments	81	-	81
Receivables	13,230	11,671	24,901
Due from other governmental units	7,105	-	7,105
Prepays	2,793	423	3,216
Total current assets	279,367	63,360	342,727
Noncurrent assets			
Investments	119,084	-	119,084
Capital assets not being depreciated	142,548	35,706	178,254
Capital assets, net of accumulated depreciation	273,776	506,099	779,875
Total noncurrent assets	535,408	541,805	1,077,213
TOTAL ASSETS	814,775	605,165	1,419,940
LIABILITIES			
Accounts payable	14,176	4,532	18,708
Accrued wages	1,746	-	1,746
Other accrued liabilities	134	3,423	3,557
Deferred revenue	7,254	-	7,254
Current portion of long-term debt	-	25,000	25,000
Total current liabilities	23,310	32,955	56,265
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	185,000	185,000
TOTAL LIABILITIES	23,310	217,955	241,265
NET ASSETS			
Invested in capital assets, net of related debt	416,324	331,805	748,129
Restricted for streets and highways	185,750	-	185,750
Unrestricted	189,391	55,405	244,796
TOTAL NET ASSETS	\$ 791,465	\$ 387,210	\$ 1,178,675

See accompanying notes to financial statements.

Village of Perrinton
STATEMENT OF ACTIVITIES
Year Ended February 28, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 79,805	\$ 7,372	\$ -	\$ -	\$ (72,433)	\$ -	\$ (72,433)
Public safety	59,729	21,946	-	104,196	66,413	-	66,413
Public works	71,579	20,357	41,321	-	(9,901)	-	(9,901)
Recreation and cultural	2,797	-	-	-	(2,797)	-	(2,797)
Total governmental activities	213,910	49,675	41,321	104,196	(18,718)	-0-	(18,718)
Business-type activities							
Water and Sewer System	113,958	79,314	-	-	-	(34,644)	(34,644)
Total	<u>\$ 327,868</u>	<u>\$ 128,989</u>	<u>\$ 41,321</u>	<u>\$ 104,196</u>	(18,718)	(34,644)	(53,362)
General revenues							
Property taxes					46,259	-	46,259
State shared revenue					43,267	-	43,267
Investment earnings					8,226	137	8,363
Miscellaneous					12,014	177	12,191
Total general revenues					109,766	314	110,080
Change in net assets					91,048	(34,330)	56,718
Net assets, beginning of the year					702,281	369,399	1,071,680
Prior period adjustments					(1,864)	52,141	50,277
Net assets, end of the year					<u>\$ 791,465</u>	<u>\$ 387,210</u>	<u>\$ 1,178,675</u>

See accompanying notes to financial statements.

Village of Perrinton

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2006

	General	Major Street
ASSETS		
Cash and cash equivalents	\$ 73,044	\$ 79,193
Investments	109,165	10,000
Receivables		
Accounts	1,895	-
Taxes	4,004	-
Due from other governmental units	-	5,247
Prepays	848	212
TOTAL ASSETS	<u>\$ 188,956</u>	<u>\$ 94,652</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 3,354	\$ -
Accrued wages	1,746	-
Other accrued liabilities	134	-
Deferred revenue	-	-
TOTAL LIABILITIES	5,234	-0-
FUND BALANCES		
Reserved for prepaids	848	212
Unreserved		
Undesignated, reported in		
General fund	182,874	-
Special revenue funds	-	94,440
TOTAL FUND BALANCES	<u>183,722</u>	<u>94,652</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 188,956</u>	<u>\$ 94,652</u>

See accompanying notes to financial statements.

Local Street	Fire	Total Governmental Funds
\$ 88,827	\$ 15,094	\$ 256,158
-	-	119,165
-	7,331	9,226
-	-	4,004
1,858	-	7,105
413	1,320	2,793
<u>\$ 91,098</u>	<u>\$ 23,745</u>	<u>\$ 398,451</u>
\$ -	\$ 10,822	\$ 14,176
-	-	1,746
-	-	134
-	7,254	7,254
-0-	18,076	23,310
413	1,320	2,793
-	-	182,874
90,685	4,349	189,474
<u>91,098</u>	<u>5,669</u>	<u>375,141</u>
<u>\$ 91,098</u>	<u>\$ 23,745</u>	<u>\$ 398,451</u>

Village of Perrinton

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 28, 2006

Total fund balance - governmental funds \$ 375,141

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 901,734	
Accumulated depreciation is	<u>(485,410)</u>	
Capital assets, net		<u>416,324</u>
Net assets of governmental activities		<u><u>\$ 791,465</u></u>

See accompanying notes to financial statements.

Village of Perrinton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended February 28, 2006

	General	Major Street
REVENUES		
Taxes	\$ 46,920	\$ -
Licenses and permits	5	-
Intergovernmental	45,210	26,512
Charges for services	17,433	-
Interest and rents	17,097	458
Other	4,603	-
TOTAL REVENUES	131,268	26,970
EXPENDITURES		
Current		
General government	61,750	-
Public safety	-	-
Public works	37,839	12,503
Recreation and cultural	2,203	-
Capital outlay	9,660	-
TOTAL EXPENDITURES	111,452	12,503
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	19,816	14,467
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(19,000)	(6,593)
TOTAL OTHER FINANCING SOURCES (USES)	(19,000)	(6,593)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	816	7,874
Fund balances, beginning of year	182,208	86,569
Prior period adjustments	698	209
Fund balances, end of year	\$ 183,722	\$ 94,652

See accompanying notes to financial statements.

Local Street	Fire	Total Governmental Funds
\$ -	\$ -	\$ 46,920
-	-	5
12,866	-	84,588
-	21,946	39,379
281	20	17,856
-	7,411	12,014
13,147	29,377	200,762
-	-	61,750
-	39,413	39,413
14,414	-	64,756
-	-	2,203
-	9,713	19,373
14,414	49,126	187,495
(1,267)	(19,749)	13,267
6,593	19,000	25,593
-	-	(25,593)
6,593	19,000	-0-
5,326	(749)	13,267
85,368	9,593	363,738
404	(3,175)	(1,864)
\$ 91,098	\$ 5,669	\$ 375,141

Village of Perrinton

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ 13,267

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 7,608	
Depreciation expense	<u>(34,023)</u>	
Excess of depreciation expense over capital outlay		(26,415)

Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	<u>104,196</u>
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Change in net assets of governmental activities	<u><u>\$ 91,048</u></u>
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See accompanying notes to financial statements.

Village of Perrinton

STATEMENT OF NET ASSETS - PROPRIETARY FUND

February 28, 2006

	Business-type Activities Water and Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 51,266
Accounts receivable	11,671
Prepays	423
Total current assets	63,360
Noncurrent assets	
Capital assets not being depreciated	35,706
Capital assets, net	506,099
Total noncurrent assets	541,805
TOTAL ASSETS	605,165
LIABILITIES	
Current liabilities	
Accounts payable	4,532
Customer deposits	312
Accrued interest payable	3,111
Current portion of notes payable	25,000
Total current liabilities	32,955
Noncurrent liabilities	
Notes payable	185,000
TOTAL LIABILITIES	217,955
NET ASSETS	
Invested in capital assets, net of related debt	331,805
Unrestricted	55,405
TOTAL NET ASSETS	\$ 387,210

See accompanying notes to financial statements.

Village of Perrinton

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND

Year Ended February 28, 2006

	Business-type Activities Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 74,620
Other	
Equipment rent	4,694
Other	177
TOTAL OPERATING REVENUES	79,491
OPERATING EXPENSES	
Salaries and wages	15,605
Fringe benefits	5,623
Contractual services	6,616
Utilities	21,912
Telephone	2,987
Supplies	13,824
Insurance	3,108
Repairs and maintenance	1,156
Depreciation	33,376
TOTAL OPERATING EXPENSES	104,207
OPERATING (LOSS)	(24,716)
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	137
Interest expense	(9,476)
Paying agent fees	(275)
TOTAL NONOPERATING REVENUES (EXPENSES)	(9,614)
CHANGE IN NET ASSETS	(34,330)
Net assets, beginning of year	369,399
Prior period adjustments	52,141
Net assets, end of year	\$ 387,210

See accompanying notes to financial statements.

Village of Perrinton

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended February 28, 2006

	Business-type Activities Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 75,371
Cash receipts from other funds	4,694
Cash paid to suppliers	(45,611)
Cash paid for employee benefits	(5,623)
Cash paid to suppliers	(15,605)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,226
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(4,635)
Interest and fiscal charges	(10,038)
Payments of borrowing	(25,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(39,673)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	137
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,310)
Cash and cash equivalents, beginning of year	77,576
Cash and cash equivalents, end of year	\$ 51,266
Reconciliation of operating (loss) to net cash provided by operating activities	
Operating (loss)	\$ (24,716)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	33,376
Decrease in accounts receivable	502
(Increase) in prepaids	(33)
Increase in accounts payable	4,025
Increase in customer deposits	72
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 13,226

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Perrinton is located in Gratiot County, Michigan and has a population of approximately 435. The Village of Perrinton operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Perrinton. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Perrinton contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Fire Fund is used to account for the financial resources that are used for fire protection.
- e. The Water and Sewer Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Clerk submits to the Village Council the proposed operating budgets for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2006 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include U.S. Government Securities and certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Property Tax

The Village of Perrinton bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax - continued

Property taxes are levied by the Village of Perrinton on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (approximately \$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2006, the Village levied 10.5477 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$4,508,767.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund and Water and Sewer Fund record charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 40 years
Vehicles	5 years
Machinery and equipment	5 - 20 years
Water and sewer systems	5 - 40 years

10. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2006, the carrying amount of the Village's deposits was \$242,304 and the bank balance was \$242,485, of which \$200,000 was covered by federal depository insurance. The remaining balance of \$42,485 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash balances reported in the basic financial statements include \$20,276 in cash that is on deposit with the Gratiot County Treasurer. The cash on deposit with the Gratiot County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Investments

As of February 28, 2006, the market values, which are the carrying values for each investment, are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Money market funds	\$ 54,844	\$ 54,844	N/A	N/A
Federal Home Loan Mortgage	75,435	75,435	Aaa	13.6 years
Federal National Mortgage Association	27,825	27,825	Aaa	27 years
Government National Mortgage Association	<u>5,905</u>	<u>5,905</u>	Aaa	13.2 years
TOTAL REPORTING ENTITY	<u>\$ 164,009</u>	<u>\$ 164,009</u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2006:

Cash and cash equivalents	\$ 307,424
Investments - current	81
Investments - noncurrent	<u>119,084</u>
	<u>\$ 426,589</u>

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
Major Street Fund	\$ <u>6,593</u>
Transfers to Fire Fund from:	
General Fund	\$ <u>19,000</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

Governmental activities

	Balance <u>Mar. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Feb. 28, 2006</u>
Capital assets not being depreciated:				
Land	\$ 142,548	\$ -	\$ -	\$ 142,548
Capital assets being depreciated:				
Land improvements	76,047	-	-	76,047
Buildings and improvements	236,465	3,971	-	240,436
Vehicles	268,680	-	(43,079)	225,601
Machinery and equipment	<u>111,047</u>	<u>107,833</u>	<u>(1,778)</u>	<u>217,102</u>
Subtotal	692,239	111,804	(44,857)	759,186
Less accumulated depreciation for:				
Land improvements	(76,047)	-	-	(76,047)
Buildings and improvements	(76,585)	(4,954)	-	(81,539)
Vehicles	(244,582)	(11,193)	43,079	(212,696)
Machinery and equipment	<u>(99,030)</u>	<u>(17,876)</u>	<u>1,778</u>	<u>(115,128)</u>
Subtotal	<u>(496,244)</u>	<u>(34,023)</u>	<u>44,857</u>	<u>(485,410)</u>
Net capital assets being depreciated	<u>195,995</u>	<u>77,781</u>	<u>-0-</u>	<u>273,776</u>
Total Net Capital Assets	<u>\$ 338,543</u>	<u>\$ 77,781</u>	<u>\$ -0-</u>	<u>\$ 416,324</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 6,290
Public safety	20,316
Public works	6,823
Recreation and cultural	<u>594</u>
Total depreciation expense	<u>\$ 34,023</u>

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

Business-type activities

	Balance Mar. 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Capital assets not being depreciated:				
Land	\$ 35,706	\$ -	\$ -	\$ 35,706
Capital assets being depreciated:				
Buildings and improvements	30,783	-	-	30,783
System and mains	1,183,493	-	-	1,183,493
Machinery and equipment	163,713	4,635	-	168,348
Vehicles	<u>10,725</u>	<u>-</u>	<u>-</u>	<u>10,725</u>
Subtotal	1,388,714	4,635	-0-	1,393,349
Less accumulated depreciation for:				
Buildings and improvements	(13,876)	(1,253)	-	(15,129)
System and mains	(666,869)	(31,469)	-	(698,338)
Machinery and equipment	(162,404)	(654)	-	(163,058)
Vehicles	<u>(10,725)</u>	<u>-</u>	<u>-</u>	<u>(10,725)</u>
Subtotal	<u>(853,874)</u>	<u>(33,376)</u>	<u>-0-</u>	<u>(887,250)</u>
Total capital assets being depreciated	<u>534,840</u>	<u>(28,741)</u>	<u>-0-</u>	<u>506,099</u>
Total net capital assets	<u>\$ 570,546</u>	<u>\$ (28,741)</u>	<u>\$ -0-</u>	<u>\$ 541,805</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 28, 2006:

	Balance Mar. 1, 2005	Additions	Deletions	Balance Feb. 28, 2006	Amounts Due Within One Year
Business-type activities					
2002 Water Supply Bonds	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 210,000</u>	<u>\$ 25,000</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Water Supply and Distribution System Revenue Refunding Bonds

\$285,000 Water Supply Bonds dated January 1, 2002, due in annual installments ranging from \$25,000 to \$35,000 through May 1, 2012, with interest of 3.90 to 4.85 percent, payable semi-annually.

\$ 210,000

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

<u>Year Ending February 28,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 25,000	\$ 8,845	\$ 33,845
2008	30,000	7,743	37,743
2009	30,000	6,483	36,483
2010	30,000	5,163	35,163
2011	30,000	3,798	33,798
2012-2013	<u>65,000</u>	<u>3,251</u>	<u>68,251</u>
	<u>\$ 210,000</u>	<u>\$ 35,283</u>	<u>\$ 245,283</u>

NOTE F: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 3% of their annual salary to the retirement system. The Village is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended February 28, 2006, the Village was not required to contribute to the plan. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Three (3) year trend information

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 15,858	\$ 19,781	\$ 22,507
Actuarial accrued liability (AAL) (entry age)	5,351	6,237	11,345
Unfunded AAL	(10,507)	(13,544)	(11,162)
Funded ratio	296 %	317 %	198 %
Covered payroll	-	29,605	31,324
UAAL as a percentage of covered payroll	- %	- %	- %

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE F: RETIREMENT PLAN - CONTINUED

Three (3) year trend information - continued

	Year Ended February 28/29,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ -	\$ -	\$ -
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE G: RISK MANAGEMENT

The Village carries commercial insurance for the risk of loss due to workers' compensation claims.

The Village participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, automobile, and crime losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended February 28, 2006, the Village incurred expenditures in the General Fund and one (1) Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 5,200	\$ 5,685	\$ 485
Executive	5,550	5,866	316
Financial administration	19,500	20,636	1,136
Public works			
Highways and streets	7,400	7,961	561
Sanitation	24,000	29,878	5,878
Other financing uses			
Transfer out	-	19,000	19,000
Fire Fund			
Public safety	26,957	39,413	12,456

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE I: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

Governmental Funds	
General Fund	
Reserved for prepaids	\$ <u>848</u>
Major Street Fund	
Reserved for prepaids	\$ <u>212</u>
Local Street Fund	
Reserved for prepaids	\$ <u>413</u>
Fire Fund	
Reserved for prepaids	\$ <u>1,320</u>

NOTE J: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source (bond ordinance, etc.) which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2006:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for streets and highways	\$ <u>185,750</u>

NOTE K: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance and net assets, respectively. The effect on operations and other affected balances for the current and prior period are as follows:

	February 28, <u>2006</u>	<u>2005</u>	<u>Description</u>
Governmental Funds			
General Fund			
Prepaids	\$ -	\$ 698	Correct understatement
Revenues over (under) expenditures	-	698	of prepaids
Fund balance - beginning	698	-	
Major Street Fund			
Prepaids	-	209	Correct understatement
Revenues over (under) expenditures	-	209	of prepaids
Fund balance - beginning	209	-	
Local Street Fund			
Prepaids	-	404	Correct understatement
Revenues over (under) expenditures	-	404	of prepaids
Fund balance - beginning	404	-	

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE K: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	February 28, <u>2006</u>	<u>2005</u>	<u>Description</u>
Governmental Funds - continued			
Fire Fund			
Prepays	\$ -	\$ 1,275	Correct understatement
Deferred revenue	-	4,450	of prepaids and deferred
Revenues over (under) expenditures	-	(3,175)	revenues
Fund balance - beginning	(3,175)	-	
Governmental Activities			
Prepays	-	2,586	Correct understatement
Deferred revenue	-	4,450	of prepaids and deferred
Change in net assets	-	(1,864)	revenue
Net assets - beginning	(1,864)	-	
Business-type Activities			
Water and Sewer Fund			
Prepays	-	390	Correct understatement
Cash	-	55,149	of prepaids, cash, and
Accrued interest	-	3,398	accrued interest
Net assets - beginning	52,141	-	

REQUIRED SUPPLEMENTARY INFORMATION

Village of Perrinton

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 51,900	\$ 51,900	\$ 46,920	\$ (4,980)
Licenses and permits	20	20	5	(15)
Intergovernmental	40,000	48,000	45,210	(2,790)
Charges for services	16,850	16,850	17,433	583
Interest and rents	14,960	14,960	17,097	2,137
Other	300	300	4,603	4,303
TOTAL REVENUES	124,030	132,030	131,268	(762)
EXPENDITURES				
General government				
Legislative	5,200	5,200	5,685	(485)
Executive	5,550	5,550	5,866	(316)
Financial administration	19,500	19,500	20,636	(1,136)
Halls and grounds	41,850	41,850	29,563	12,287
Total general government	72,100	72,100	61,750	10,350
Public safety				
Fire department	500	500	-	500
Public works				
Highways and streets	7,400	7,400	7,961	(561)
Sanitation	24,000	24,000	29,878	(5,878)
Total public works	31,400	31,400	37,839	(6,439)
Recreation and cultural				
Parks and recreation	800	2,203	2,203	-0-
Capital outlay	-	16,653	9,660	6,993
TOTAL EXPENDITURES	104,800	122,856	111,452	11,404
EXCESS OF REVENUES OVER EXPENDITURES	19,230	9,174	19,816	10,642

Village of Perrinton

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfer in	\$ -	\$ 10,000	\$ -	\$ (10,000)
Transfer out	-	-	(19,000)	(19,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-0-</u>	<u>10,000</u>	<u>(19,000)</u>	<u>(29,000)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	19,230	19,174	816	(18,358)
Fund balance, beginning of year	182,208	182,208	182,208	-0-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>698</u>	<u>698</u>
Fund balance, end of year	<u>\$ 201,438</u>	<u>\$ 201,382</u>	<u>\$ 183,722</u>	<u>\$ (17,660)</u>

Village of Perrinton

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 26,000	\$ 26,000	\$ 26,512	\$ 512
Interest	500	500	458	(42)
Other	50	50	-	(50)
TOTAL REVENUES	26,550	26,550	26,970	420
EXPENDITURES				
Public works	15,925	15,925	12,503	3,422
EXCESS OF REVENUES OVER EXPENDITURES	10,625	10,625	14,467	3,842
OTHER FINANCING USES				
Transfer out	(7,100)	(7,100)	(6,593)	507
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	3,525	3,525	7,874	4,349
Fund balance, beginning of year	86,569	86,569	86,569	-0-
Prior period adjustments	-	-	209	209
Fund balance, end of year	\$ 90,094	\$ 90,094	\$ 94,652	\$ 4,558

Village of Perrinton

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 10,000	\$ 10,000	\$ 12,866	\$ 2,866
Interest	75	75	281	206
TOTAL REVENUES	10,075	10,075	13,147	3,072
EXPENDITURES				
Public works	14,255	15,282	14,414	868
EXCESS OF REVENUES (UNDER) EXPENDITURES	(4,180)	(5,207)	(1,267)	3,940
OTHER FINANCING SOURCES				
Transfer in	7,100	7,100	6,593	(507)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	2,920	1,893	5,326	3,433
Fund balance, beginning of year	85,368	85,368	85,368	-0-
Prior period adjustments	-	-	404	404
Fund balance, end of year	<u>\$ 88,288</u>	<u>\$ 87,261</u>	<u>\$ 91,098</u>	<u>\$ 3,837</u>

Village of Perrinton

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charges for services	\$ 19,500	\$ 24,450	\$ 21,946	\$ (2,504)
Interest	100	100	20	(80)
Other	-	-	7,411	7,411
TOTAL REVENUES	19,600	24,550	29,377	4,827
EXPENDITURES				
Public safety	22,020	26,957	39,413	(12,456)
Capital outlay	12,000	12,000	9,713	2,287
TOTAL EXPENDITURES	34,020	38,957	49,126	(10,169)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(14,420)	(14,407)	(19,749)	(5,342)
OTHER FINANCING SOURCES				
Transfer in	18,000	23,000	19,000	(4,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	3,580	8,593	(749)	(9,342)
Fund balance, beginning of year	9,593	9,593	9,593	-0-
Prior period adjustments	-	-	(3,175)	(3,175)
Fund balance, end of year	<u>\$ 13,173</u>	<u>\$ 18,186</u>	<u>\$ 5,669</u>	<u>\$ (12,517)</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Perrinton
Perrinton, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Village of Perrinton, Michigan for the year ended February 28, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be adopted, monitored and amended when necessary.

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund and Fire Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

2. The Village should review the status of individual fund balances (deficits) near year-end.

As noted in the basic financial statements, the Village had one (1) fund that ended the year in a deficit financial position. As a result, the Village will be required to submit a deficit elimination plan to the State of Michigan.

We suggest the Village review the status of individual funds near year-end and make appropriate adjustments when possible to eliminate deficits.

3. The Council should implement various written procedures and policies.

Based on our discussions with management, we noted that the Village Council has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater oversight over those areas over which they are responsible. Specifically, we suggest that the Council develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Council adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.
- b. Code of conduct - We suggest the Council adopt a code of conduct. The code should include a policy on conflicts of interest and the Council should require employees and Council members to periodically make a declaration of compliance.
- c. Investment policy - Michigan Compiled Law requires that all local units of government adopt an investment policy. The specific criteria for an investment policy are detailed in Public Act 20 of 1943, as amended. We suggest the Council prepare a formal investment policy that complies with the compiled law and adopt it through Board action as soon as possible. The policy should address the issues of authorized investments, custodial credit risk, concentration of credit risk, and interest rate risk.
- d. Electronic funds transfer policy - We suggest the Council adopt an electronic funds transfer policy as required by Public Act 738 of 2002.
- e. Capital asset policy - We suggest the Council adopt a capital asset policy which establishes a threshold for defining capital assets and the methods for acquiring and disposing of capital assets.
- f. Fraud risk assessment - The Council should perform a fraud risk assessment and consider additional segregations of duties or greater internal controls as a result of assessed problem areas.

4. The Village should review various areas of operations related to the cash receipting process.

During the course of our audit, it was noted that the Village does not use pre-numbered sequential receipts, receipts are stored loosely in an envelope, and receipt copies are not usually given to the payer. We also noted one (1) instance in which the receipt was not signed by a Village employee.

We suggest the Village review the internal control procedures related to the cash receipting process and consider additional procedures or review to strengthen the internal control over cash receipts.

5. The Village should maintain its general ledger on computer software that supports double-entry accounting.

During the course of our audit it was noted that the Village currently maintains its general ledger on computer software that does not support double-entry accounting. As a result the Village is unable to record accruals and other various non-cash transactions and accurately and efficiently monitor fund equity.

The Village should consider changing its accounting software to a program that will support double-entry accounting. This will allow the Village to monitor its fund equity and record various non-cash transactions.

6. The Village should research the formation of the Fire Department.

During the course of our audit it was noted that the Fire Department operates under its own employer identification number (EIN). As a result, certain financial activities related to the Fire Department have not been recorded in the Village's general ledger and have not been included in the audited financial statements of the Village.

The Village/Department should research documentation related to the creation/organization of the Fire Department to determine its status with regards to Federal income taxation and audit requirements. The type of organization (i.e., governmental entity, non-profit organization, for-profit organization) will dictate how to account for future transactions of the Department.

7. Documentation should be retained to support utility billings.

During the course of our audit it was noted that a billing register is not retained to support the amounts billed each billing cycle. Utility billings are generated using an electronic database merged with a word processing invoice template. When billings are processed a final billing register is not printed and retained for audit purposes and information for the previous billing cycle is replaced. It was also noted that the billings do not distinguish between amounts billed for the current period from amounts billed for penalties and past due balances.

We suggest the Village review the procedures related to utility billings and ensure that a complete billing register is printed for each billing cycle that distinguishes amounts billed for current period charges from amounts past due and penalties. These registers should be retained for audit purposes.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements and this report does not affect our report on the financial statements dated April 12, 2006.

This report is intended solely for the use of management and the Village Council of the Village of Perrinton, Michigan and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 12, 2006